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August 1, 2000

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110
Re: Metering, Billing and Information Services, D.T.E. 00-41

Dear Ms. Cottrell:

On June 12, 2000, the Department of Telecommunications and Energy (the "Department") issued a Notice of Inquiry (the "NOI") regarding metering, billing and information services ("MBIS") and distribution company franchises. As indicated in the NOI, the Department is conducting this investigation to determine: (1) whether MBIS, traditionally provided by electric distribution companies, should be unbundled and provided on a competitive basis; and (2) whether electric distribution company service territories should remain exclusive, as required by G.L. c. 164, § 1B. In the NOI, the Department solicited comments on six policy questions, including one directed at the natural gas industry. Enclosed are an original and 15 copies of the comments of seven investor-owned natural gas local distribution companies (the "LDCs") responding to that question.

Specifically the Department poses the following question: "To what extent, if any, does the Electric Restructuring Act of 1997 (the "Act") require or allow the Department to consider whether MBIS should be offered competitively within the natural gas industry?" As discussed below, the provisions of the Act relevant to the Department's inquiry do not apply to the natural gas industry. However, the LDCs support the detailed analysis provided by the electric distribution companies, which concludes that the Department should not act to unbundle MBIS from distribution service or to end the exclusivity of distribution company franchises.

Applicability to the Natural Gas Industry

Section 312 of the Act states, in relevant part:

Notwithstanding any general or special law, rule, or regulation to the contrary, no sooner than January 1, 2000, the department of telecommunications and energy, in conjunction with the division of energy resources, is hereby authorized and directed to commence an investigation and study relative to the manner in which metering, meter maintenance and testing, customer billing, and information services have been provided by distribution companies since March 1, 1998, pursuant to the provisions of chapter 164 of the General Laws, to analyze and determine whether such services should be unbundled and provided through a competitive market, whether in doing so any substantive savings accrues to consumers, and whether such substantive savings can be effected with little, if no, disruptions to employee staffing levels of those distribution companies presently conducting those activities. Said study shall also include an investigation and review of the creation of exclusive distribution service territories, pursuant to section 1B of said chapter 164, to determine if such exclusivity shall be terminated or altered in any such manner.

(emphasis added). Notably, the term "distribution company" is defined as "a company engaging in the distribution of electricity or owning, operating, or controlling distribution facilities. . . ." G.L. c. 164, § 1. A "distribution facility" is defined as "plant or equipment used for the distribution of electricity and which is not a transmission facility, a cogeneration facility, or a small power production facility." Id. Thus, by its explicit terms, Section 312 of the Act authorizes and directs the Department to commence an investigation of MBIS and the exclusivity of franchise territories only in relation to electric distribution companies. The statute does not direct the Department to conduct such an inquiry for the gas

companies.

Moreover, it is important to note that Section 312 requires the Department to investigate "the manner in which metering, meter maintenance and testing, customer billing, and information services have been provided by distribution companies since March 1, 1998," which was the implementation date for customer choice in the electric industry. Thus, the Legislature's directive to the Department must be viewed in the context of the unbundling and divestiture of electric generation, and that, in having achieved this level of unbundling, the resulting experience would warrant an investigation into further unbundling of distribution company services. Although some level of unbundling has occurred in the gas industry, the statewide customer-choice program has not yet been implemented. In fact, unbundling in the gas industry is in only the earliest stages of program implementation. Thus, it is appropriate that further experience be gained with gas unbundling before the Department consider further unbundling of gas distribution services.

Comments on Unbundling of MBIS

The LDCs have reviewed the comments filed today by the electric companies and would like to take this opportunity to support the overall conclusions drawn therein. Although the Department's current inquiry into the unbundling of MBIS is not aimed at the gas industry, there are similarities between the gas and electric industries with regard to the components of distribution service and the cost structures that underlie those services. To the extent that these similarities exist, the overall conclusions of the electric companies are equally applicable to the gas industry.

In that regard, the LDCs believe that, were the Department to look at these issues in relation to the gas industry, the evaluation criteria set forth by the electric companies are reasonable and appropriate. That is, in determining whether MBIS should be unbundled from distribution service and be provided on a competitive basis, the Department should evaluate whether such action would: (1) reduce costs for the benefit of customers; (2) ensure continued distribution system reliability and safety; (3) maintain or enhance customer satisfaction and service quality; (4) enable the Department to maintain sufficient control and oversight over the quality of service and level of information afforded to customers; and (5) facilitate the development of a competitive retail market.

To that end, the LDCs offer the following brief discussion on the cost and non-cost impacts of unbundling MBIS.

Cost Impact

The Act appropriately requires the Department to evaluate whether "substantive savings" would accrue to customers as a result of the further unbundling of electric distribution services. As is the case with the electric industry, distribution services provided by the LDCs benefit from economies of scale and scope. The realization of economies of scale and scope enables the distribution company to provide a range of interrelated services, including metering, billing and information services, on an effective and efficient basis. To the extent that gas companies are required to unbundle these services, overall costs for customers will increase, as is the case with the electric distribution companies. This is because avoided costs for gas companies will be minimal in that such systems are central to the distribution function and will continue to be necessary. In addition, as was the case with the implementation of the customer-choice program in the electric industry, the gas companies will incur costs associated with the development and implementation of new information systems to coordinate these services with competitive suppliers.

Balanced against these costs is the fact that there is no data to support a

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conclusion that cost savings will be achieved as a result of unbundling these services and making them available on a competitive basis. Quite to the contrary, the information provided by the electric companies shows that efficiencies realized through economies of scale and scope would be lost, putting an upward pressure on costs. In the absence of a demonstration that the cost savings associated with the unbundling of MBIS would outweigh the costs that would be incurred to accommodate such unbundling, the Department must make a determination that these services should remain within the distribution company.

Non-Cost Impacts

The Department must also determine whether the unbundling of MBIS can be achieved without impairing the utility's ability to fulfill its service obligation, which requires it to provide cost-effective, safe and reliable service to customers. The fulfillment of this obligation is largely dependent upon the ongoing communication and personal contact that a distribution company has with customers regarding their service requirements. As discussed herein, the unbundling of MBIS would inevitably erode the interaction between the utility and its customers, and therefore, undermine its ability to provide customers with effective and responsive service. Most importantly, in the absence of clear customer benefits and assured quality of service, the unbundling of MBIS can only serve to cause employee dislocations and unwarranted levels of customer confusion and dissatisfaction.

Thus, the LDCs agree with the electric companies that the Department should consider a number of non-cost factors in evaluating whether MBIS should be unbundled. These factors should include, but not be limited to, consideration of whether such unbundling will: (1) ensure continued distribution-system reliability and safety; (2) maintain or enhance customer satisfaction and service quality (3) enable the Department to maintain sufficient control and oversight; and (4) facilitate the development of a competitive retail market.

For instance, under the Model Terms and Conditions, third-party suppliers have the right to sell gas to individual customers, while the gas companies have the obligation and responsibility to ensure the integrity of the overall system in addition to serving their own sales/default service customers. In order to keep the overall system in balance, while allowing third-party suppliers to sell gas to customers (on a daily-metered or non-daily metered basis), gas companies must have ready access to complete and accurate metering and billing data. The unbundling of MBIS services would introduce needless and inefficient complexity to this process in that the gas company, which is responsible for managing the overall system, will need to continue to collect, review and coordinate such data, thereby duplicating the efforts of others in the market. This redundancy would be unavoidable because, otherwise, gas companies would be placed in the position of having to rely on a number of independent, unregulated entities for the data necessary to accomplish the business transactions contemplated by the Model Terms and Conditions. To the extent that an entity controlling the metering and/or billing information fails to provide accurate and complete data on a timely basis, other participants in the market will be affected, including the distribution company and its customers. Centralizing these functions within the distribution company expedites the data-collection and integration process and facilitates the identification and correction of erroneous data. Thus, in order to ensure the safety and reliability of the overall system if MBIS were unbundled, redundancies and inefficiencies (leading to cost increases) would be created in the collection and processing of metering and billing data.

In addition, under the current regulatory framework, regulated gas companies are directly accountable for the interrelated services that are necessary to deliver gas to customers. This is important for several reasons. First, gas-company involvement in the billing process serves as an important and inexpensive way to disseminate Department-mandated customer notifications of rate changes, availability of low-income programs, shut-off notifications, and other information, as well as critical safety information regarding the use of natural gas. Billing and collection practices and procedures of the gas companies are closely monitored by the

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Department, which has multiple options available to it for sanctioning a utility that is under-performing in these areas. Moreover, the gas companies maintain sophisticated information systems and skilled personnel to staff and operate customer-call centers, which interact personally with customers in resolving customer-service issues. This personal involvement with the customer is undermined where the customer ceases to be billed and metered by the gas company. Lastly, gas companies are subject to Department regulations governing meter testing and accuracy, safe meter installation and the overall safety of operating the distribution system. The unbundling of MBIS could have serious implications regarding the enforcement of these regulations.

Although the Department may act to extend its consumer-protection regulations and oversight practices to unregulated entities, enforcement of the standards will be more difficult. The Department has numerous regulatory tools to evaluate and enforce a utility's practices and performance, such as base-rate proceedings and service-quality reviews, as well as investigations into individual customer complaints. Enforcement of unregulated entities for possible violations of consumer-protection or safety issues would be limited to an administratively burdensome case-by-case, after-the-fact complaint or adjudicatory enforcement proceeding.

Lastly, the continuation of MBIS within the distribution company eliminates a potential barrier to entry for new suppliers attempting to enter the market because a new supplier can rely on the distribution company to provide these services in a cost-effective manner (because of the economies of scale and scope involved in providing these services to its own customers). In addition, there is no impediment to customer choice, because customers are free to switch suppliers without the delay or disruption that may be caused in changing meters or billing services.

Comments on Exclusivity of Distribution Franchise Territories

As is the case with electric companies, no fundamental change in the costs, technology or structure of distribution service has occurred that would undermine the rationale for maintaining exclusivity in distribution franchise territories. Like electric distribution, the distribution of natural gas remains a natural monopoly, which means that distribution services, including delivery and MBIS are most efficiently provided by a single, regulated entity, i.e., the gas company. In exchange for their exclusive service territories, gas utilities assume an obligation to provide customers with safe and reliable service on a non-discriminatory basis, and at rates that are just and reasonable. The fulfillment of this obligation has afforded customers the security of gas service upon demand and enabled the expansion of gas-distribution systems to the economic benefit of all customers in the Commonwealth. Given the physical realities of the gas distribution system, i.e., an underground system of pipes transporting natural gas to a physical connection at a customer's home or business, allowing "competitive" distribution companies to serve customers can only cause an unjustifiable degradation of safety and reliability and costly redundancy. Therefore, the LDCs support the analysis and conclusions of the electric companies, which recommend that the Department maintain the exclusivity of distribution-service territories.

The LDCs appreciate the opportunity to comment on the important issues involved in this proceeding.

Sincerely,

Robert J. Keegan